FDIC State Profile

Spring 2005

South Carolina

South Carolina's economic recovery is proceeding slowly.

- State employment continued to expand in late 2004 as the decline in overall manufacturing payrolls abated (See Chart 1). Growth is buoyed by automobiles and auto parts production, which has contributed to positive growth in durable goods-producing sectors for the past two quarters. With the health care and education industries as the state's economic growth engines, areas attracting these sectors will likely see the strongest growth in 2005.

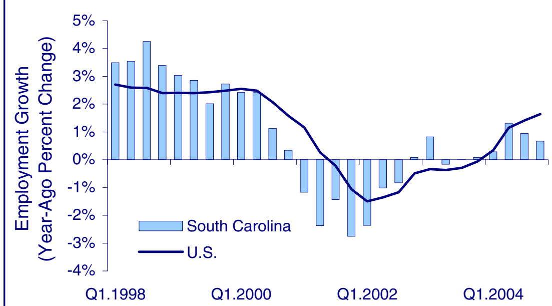
- Despite expanding payrolls, South Carolina's jobless rate remains the fourth highest in the nation. While non-seasonal unemployment declined slightly in late 2004 from the third quarter, future economic growth may be constrained without sustained improvement in joblessness. Although much of the state continues to struggle, ***Marion***, ***Marlboro***, and ***Williamsburg*** each had lower unemployment rates from year-ago levels. Despite the high rate of unemployment, wage growth has been strong as overall rates continue to exceed national trends.

Charleston emerges as a growth engine for the state's economy.

- The elimination of trade quotas on textiles and apparel products at the start of 2005 could exacerbate the ongoing trend in employment losses in these industries as even more production is shifted overseas, especially to China. Despite years of job erosion, textile and apparel employment in South Carolina remains a critical economic fixture in several areas (See Map 1). State economic development policy to mitigate these closures has included the development of specialized manufacturing and service-providing industries. However, it is estimated that South Carolina may still lose more than 35,000[1] jobs over the next two years, as textile and apparel industries continue to move overseas.

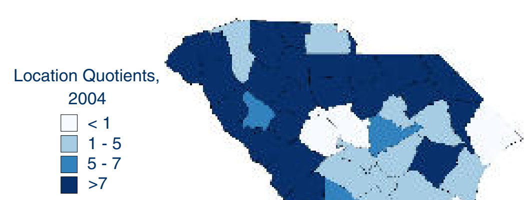
- The ***Greenville*** metro area**,** with a relatively high percentage of manufacturing jobs, has experienced sluggish growth during the restructuring of the state's economy.

Chart 1: South Carolina's Economy Continues to Grow



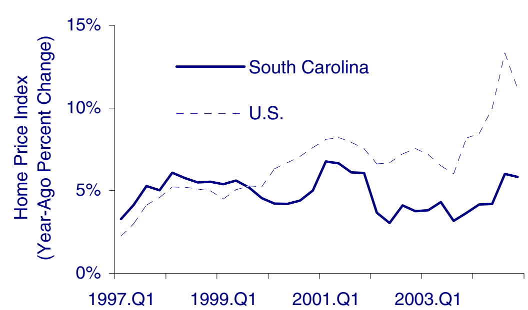
Source: Bureau of Labor Statistics

Map 1: Several Areas of South Carolina Have High Concentrations of Textile and Apparel Employment



Note: A location quotient is the share of industry employment locally to the national share. A location quotient greater than 1 means that the industry is relatively more concentrated locally than nationally.
Source: Global Insight, Inc.

Chart 2: South Carolina Home Price Appreciation Has Slowed



Source: Office of Federal Housing Enterprise Oversight

[1] Stella M. Hopkins, "Textile firm cutting 1,905 Carolinas jobs," Charlotte Observer, January 11, 2005.

Additional large textile layoffs are also scheduled to occur this year. A steep year-over-year decline in the number of residential permits issued in 2004 may cause this region to experience further economic difficulties.

- The ***Charleston MSA***, however, with its strong dependence on service-providing industries, encountered significant economic growth in fourth quarter 2004. Residential permit issuance growth is the highest among all other metropolitan areas in the state.

Residential housing construction is fueling growth and lending.

- Growth in residential real estate markets is fueling job growth in the construction sector. Year-over-year growth in statewide permit issuances has reached historic highs, with the strong acceleration occurring in late 2004. Residential permitting has been very strong in the Charleston, ***Columbia***, and ***Myrtle Beach*** metro areas. Combined, these areas make up more than one-half of all residential permit issuance in the state. Overall home price appreciation slowed in late 2004, potentially indicating some softening of market conditions (See Chart 2).

- Construction and development (C&D) lending at the state's community banks[2] jumped 48 percent during 2004. In the Myrtle Beach and Greenville metropolitan areas, C&D loan growth has been rampant. The resulting C&D lending concentration for institutions headquartered in areas ranked high nationally. At Myrtle Beach institutions the exposure is 200 percent of Tier 1 capital and ranks 7th highest in the nation, while at Greenville institutions, the exposure ranks 36th at 124 percent of Tier 1 capital.

South Carolina community banks remain in good condition.

- Earnings performance was solid at the state's community banks. Profitability measures were mostly in line with national averages as both net interest margins (NIMs) and return on assets (ROA) were 3.97 and 1.08 percent, respectively. NIMs were flat from a year ago, which contributed to a slight decline in ROA during the year.

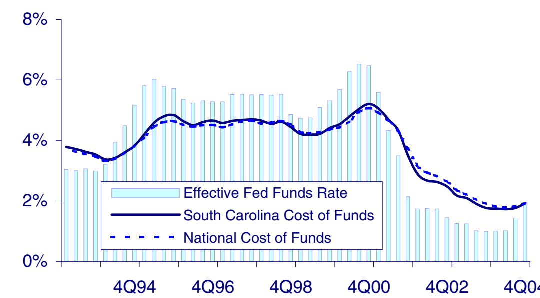
- Loan growth was robust and improved over year-ago levels. Total loans grew 16 percent and now compose roughly 70 percent of assets, up from 68 percent a year earlier. Growth is centered primarily in real estate related loans as the greatest percentage increases were in commercial real estate, C&D, permanent single family, and home equity lines. Overall loan quality continued to improve. The past due loan ratio at South Carolina community banks stands at 1.54 percent compared with 1.62 percent nationally.

The use of noncore funding sources has increased, and funding costs have headed higher.

- At community banks in the state, loan growth was funded primarily through increases in noncore sources, such as brokered deposits and jumbo CDs. The growth rate of noncore deposits approximated 22 percent during 2004. This compares with just an 8 percent rate of growth in core funding sources.

- For much of the late 1990s, insured institutions in the state had funding costs that were lower than the federal funds rate especially during periods of rising rates. Should rates continue to rise, funding costs will likely lag again (See Chart 3).

Chart 3: The Cost of Funds Has Started to Rise at South Carolina Insured Institutions



Cost of Funds is median quarterly annualized interest expense to interest-bearing liabilities.
Source: FDIC and Federal Reserve

[2]Community banks have assets less than $1 billion and exclude specialty and de novo banks.

South Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.7%	0.1%	0.1%	-2.8%	0.3%
Manufacturing (15%)	-0.5%	-5.2%	-5.4%	-10.1%	-0.4%
Other (non-manufacturing) Goods-Producing (6%)	-1.7%	1.6%	-0.2%	-2.1%	-2.0%
Private Service-Producing (61%)	0.7%	1.5%	1.5%	-1.7%	0.6%
Government (18%)	2.2%	-0.7%	0.6%	1.0%	1.1%
Unemployment Rate (% of labor force)	6.9	6.9	6.3	5.7	3.6

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	5.1%	2.4%	3.1%	5.7%
Single-Family Home Permits	13.5%	18.6%	7.5%	4.7%	-3.2%
Multifamily Building Permits	138.3%	55.1%	-47.2%	4.2%	-17.7%
Existing Home Sales	15.4%	21.3%	13.5%	3.7%	8.1%
Home Price Index	5.8%	3.7%	3.8%	6.1%	5.0%
Bankruptcy Filings per 1000 people (quarterly level)	0.90	0.95	0.99	0.95	0.80

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	96	97	102	103	108
Total Assets (in millions)	44,476	40,710	36,816	33,901	31,657
New Institutions (# < 3 years)	3	5	8	14	16
Subchapter S Institutions	3	3	2	2	2

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.35	1.67	1.85	2.01	1.74
ALLL/Total Loans (median %)	1.22	1.25	1.20	1.20	1.22
ALLL/Noncurrent Loans (median multiple)	2.07	2.18	1.94	1.92	2.07
Net Loan Losses / Total Loans (median %)	0.14	0.14	0.14	0.14	0.12

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.42	9.42	9.75	9.89	10.36
Return on Assets (median %)	0.91	0.98	1.04	0.87	0.91
Pretax Return on Assets (median %)	1.41	1.44	1.58	1.35	1.41
Net Interest Margin (median %)	4.02	4.06	4.40	4.15	4.35
Yield on Earning Assets (median %)	5.46	5.76	6.51	7.68	8.34
Cost of Funding Earning Assets (median %)	1.50	1.66	2.25	3.72	4.21
Provisions to Avg. Assets (median %)	0.21	0.25	0.27	0.24	0.22
Noninterest Income to Avg. Assets (median %)	0.79	0.88	0.82	0.83	0.69
Overhead to Avg. Assets (median %)	2.97	2.98	3.12	3.08	3.08

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	70.9	67.4	68.7	69.0	70.2
Noncore Funding to Assets (median %)	24.3	22.5	23.0	21.6	21.3
Long-term Assets to Assets (median %, call filers)	12.3	12.4	11.6	12.0	13.7
Brokered Deposits (number of institutions)	26	20	17	14	12
Brokered Deposits to Assets (median % for those above)	7.4	3.0	5.3	2.4	2.4

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	87.1	91.6	88.2	92.0	88.5
Commercial Real Estate	252.1	229.2	208.9	187.5	174.5
Construction & Development	66.0	53.7	41.4	41.4	36.9
Multifamily Residential Real Estate	3.5	3.8	2.3	2.4	1.5
Nonresidential Real Estate	171.9	164.3	144.1	110.8	95.2
Residential Real Estate	233.1	232.9	229.7	208.5	232.8
Consumer	44.3	52.0	60.3	68.5	79.3
Agriculture	7.2	8.7	10.4	8.2	9.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)
Charlotte-Gastonia-Concord, NC-SC	38	78,456
Greenville, SC	28	8,961
Columbia, SC	24	8,690
Charleston-North Charleston, SC	22	6,142
Augusta-Richmond County, GA-SC	18	5,099

Asset Distribution	Institutions
< $250 mil.	68 (70.8%)
$250 mil. to $1 bil.	21 (21.9%)
$1 bil. to $10 bil.	7 (7.3%)
> $10 bil.	0 (0%)